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SUPERMARKET BUSINESS

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THE ■ THINKING ■ PUBLICATION ■ RETHINKING ■ PEOPLE

5TH ANNUAL PRODUCE OPERATIONS REVIEW

AN INSIDE LOOK AT DEPARTMENT PERFORMANCE

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ON THE COVER

5th Produce Review: Strong results brighten an already-colorful picture

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EDITOR'S VIEW

Ken Partch

What if Clinton wins?

At the recent GMA Legal Conference in Washington, Robinson-Patman and the legal cases it spawned were much-discussed, but Fred Meyer was noticeably unmentioned.

In these days of more and more discussion of slotting allowances, deep deals and discounts, end-of-deal buy-ins, forward buying, and now a possible return of EDLPP (everyday low purchase prices), we can't help wondering what might happen if Bill Clinton becomes President.

After all, with a Congress that is likely to remain Democratic, wouldn't the election of a Democratic President tend to imply the return of a tough Federal Trade Commission, one bent on strict interpretation of Robinson-Patman?

Robinson-Patman, you may recall, is the amendment to the Clayton Anti-trust Act that got Judge Robert Bork so bent out of shape. This is the law according to Bork that is preventing manufacturers from offering more discounts to consumers. That complaint has always puzzled me in two ways: One, how could there possibly be any more promotional discounts than already available; and two, how does a law that is almost universally unenforced have such an impact?

I've always been puzzled about how a law that is so generally ignored, even by those charged with enforcing it, became so widely disliked, criticized and even ridiculed by everyone from lawyers, judges and Congressmen to Federal Trade Commissioners (especially Federal Trade Commissioners), and yet still leads to so much general discussion at industry and business meetings. To invoke Robinson-Patman is almost like invoking the devil, or evil itself.

Yet in every survey conducted by this magazine since 1986, including one now in progress, the great majority of retailers, wholesalers and even manufacturers favor more, not less, enforcement of R-P.

Indeed, we have just returned from the GMA Annual Legal Conference in Washington, where an entire afternoon was spent discussing Robinson-Patman issues and concerns. One of the speakers, Terry Calvani, former Acting Chairman of the FTC, gave us an excellent introduction to the meaning of the Act, and pointed out that R-P was never intended to address consumer welfare, and "was not designed to protect competition, but to protect competitors [especially cooperatives against their corporate competitors]."

The Act, Calvani went on, was designed to protect small businesses, but even that hasn't worked because the brunt of FTC enforcement has historically fallen on small businesses, while large companies have been most successful in having their complaints dismissed. So why all the fuss and concern?

There is something most baffling here. Former FTC Chairman under Reagan, Daniel Oliver, all but called for repeal of Robinson-Patman. Robert Bork attacked the Act as anti-consumer. Calvani tells us it is certainly not pro-consumer, nor in its enforcement, pro-small business. In the grocery industry, which gave *raison d'etre* to Robinson-Patman in the first place, R-P has been all but moribund, even though numerous actions and abuses cry out for enforcement.

What goes on? What nobody seems to want to mention is that the Supreme Court upheld the FTC in its case against Fred Meyer in 1967. Indeed, the recently updated and revised FTC rules on advertising allowances and promotions are called "The Fred Meyer Guidelines." The original decision, it seems, has

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WHY

THE ISSUE OF EDLPP WON'T GO AWAY

There is a sword of Damocles hanging over the grocery industry. It is a sword suspended by a hair that is demonstrating the precariousness of today's buyer/seller relationship.

The buyer's power has been in ascendency for nearly a decade, as promotional and advertising spending have shifted in favor of trade promotion at the expense of media advertising.

But that power may have peaked in 1991, as manufacturers began to re-examine the possibilities of *dead net pricing* to distributors, with fewer and smaller promotions and a return to greater spending for media advertising.

According to Donnelly Marketing's 14th Annual Survey of Promotional Practices for 1991, trade promotions reached a peak of 50 percent of total spending, with consumer promotions and media advertising receiving 25 percent each. Almost all the gain in trade promotion spending (5.2 percent) came at the expense of media advertising, which suffered a loss of 5.5 percent. Consumer promotion has remained fairly steady over the same period.

The shift in marketing power over the last decade has made trade promotion the driving force. But marketers are taking a new look at greater media advertising spending, with fewer and smaller promotions.

In 1992, however, a number of packaged goods companies, including the heaviest advertising spender of them all, Procter & Gamble, announced increases in advertising budgets in order to improve the share of brands against the growth of private label products and other "price" alternatives. The importance of rebuilding consumer franchises is also being mentioned.

There are several factors in the return or the re-examination of dead net pricing or everyday low purchase pricing. One is the success of EDLP retailers such as Food Lion. Another is the impact of so-called alternative retail formats, the Wal-Marts, Kmarts, warehouse clubs and deep discount drug chains, which also employ some form of everyday low pricing. A third is the prolonged recession, which threatens to make price-based formats even more attractive to consumers.

BY KEN PARTCH

The final quarter of 1992 and the expected economic climate in coming years present a

WHY EDLPP WON'T GO AWAY

far different picture than the business climate of 1988, when a team of Harvard Business School analysts, headed by Professor Walter Salmon, made its presentation on Trade Promotion and Food Distribution Costs to the Midwinter Meeting of Food Marketing Institute.

That was the presentation, you may recall, that suggested that manufacturers might wish to offer EDLPP—everyday low *purchase* prices to the distributor—in addition to other buying and merchandising arrangements, not necessarily in lieu of existing arrangements. But even that rather sensible suggestion fell on almost universally uninterested ears, if not totally deaf ones. The boom of the mid-Eighties had another year or two to run. Boom mentality and the expectation of continued inflation still dominated distributor thinking.

Prudent concerns

Several sober observers among distributors and manufacturers were deeply concerned that the gravy train of seemingly unlimited promotional funds could not last indefinitely, and that a sudden shift in marketing behavior could have wrenching effects. They also felt that prevailing promotional practices, and the inefficiencies of distribution that resulted, were adding unnecessary costs to the system and ultimately to consumers. Very sensibly, FMI launched the Harvard study on promotional practices in January, 1986. Six years later, the trends observed at that time have continued, and have now reached their present crescendo.

In 1986, when the study was initiated, manufacturers spent 37 percent of total marketing communication dollars on trade promotions, with 29 percent going for consumer promotions and 34 percent spent for media advertising. In 1978, the corresponding percentages were 34 percent, 24 percent and 42 percent. Today, as already noted, trade promotion costs have come to dominate all other marketing communication spending by far. It is extremely doubtful that consumers (or marketers) have benefitted from this shift.

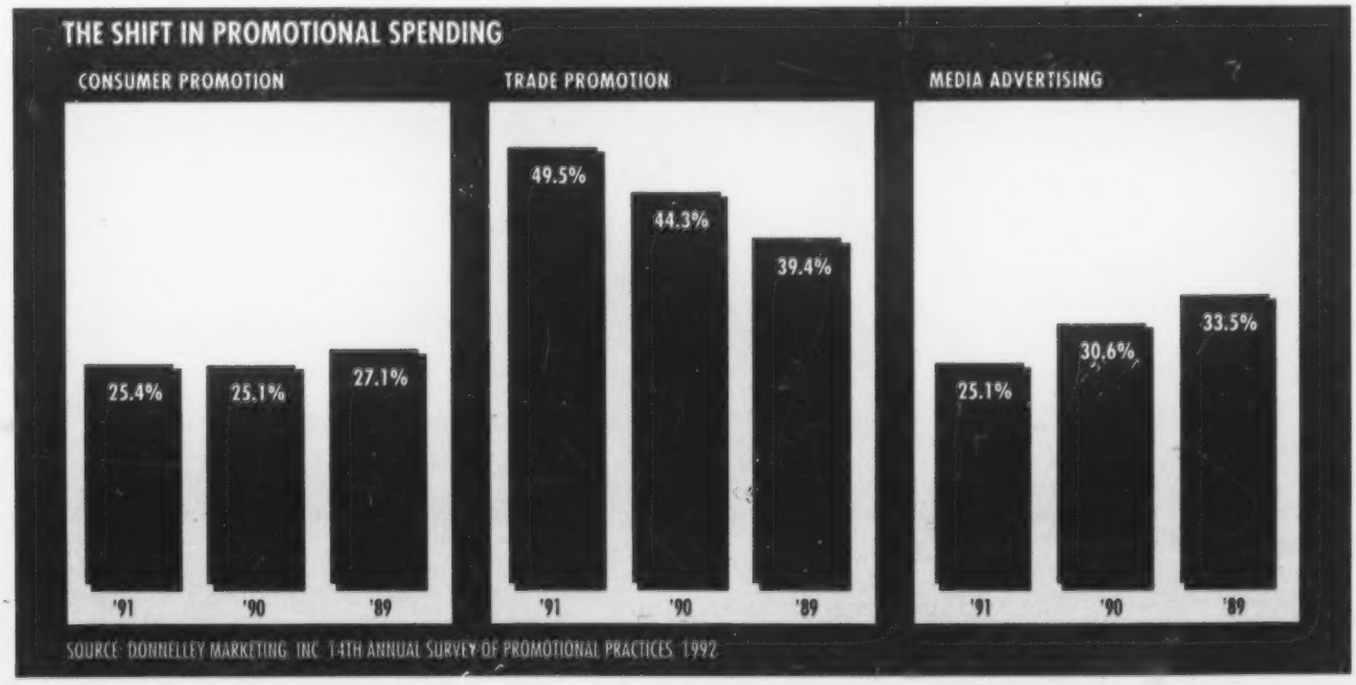
It is, therefore, commendable that it was the distribution side of the industry that first pointed out that there were alternative buying and merchandising methods available, such as a system based on accrual funds, dead net pricing and EDLPP. With the accrual funds method, the buyer accumulates promotional funds during a mutually established period at a stipulated rate. At the end of the promotional period, the buyer receives his accrued funds. While the accrual system is very similar to EDLPP, the main difference is that the funds are not distributed until the end of the performance period if all conditions are met.

Either accrual funds or EDLPP could be used by manufacturers and distributors to eliminate the need for forward buying of deal merchandise, which is one of the largest problems for both parties, in terms of unnecessary additional costs. Other methods of avoiding the ills of forward buying were also explored by the FMI study. "Bill and hold" is one of these. With this system, manufacturers bill the distributor at the deal price, but deliver the merchandise as needed over the period of the contract.

Manufacturers generally have refused to offer "bill and hold" as an alternative for one reason or another, even using the dodge that Robinson-Patman does not permit it. The usual explanation is that the administrative process of matching deliveries and invoices creates too many problems. But given the present capability of Electronic Data Interchange (EDI), that excuse doesn't seem to hold up either.

The rollback of both prices and promotions, where merchandise is transferred to distributors at a "dead net price," and accompanied by reduced promotional dollars, was also mentioned by the study as an attractive alternative, but for some reason was dismissed by the authors as "unrealistic." Unrealistic or not, that seems to be what Procter & Gamble is attempting in some of its product lines.

EDLPP, according to the study, differs from dead net prices because "EDLPP means that in return for a negotiated price, a distributor would agree to purchase or sell an agreed upon number of cases of a manufacturer's product over a designated contract



WHY EDLPP WON'T GO AWAY

period. Manufacturers would provide retailers with merchandise on an "as needed" basis for the length of the contract period. This method, the study says, "avoids inventory buildup for both distributors and manufacturers."

How the above description differs from "bill and hold" escapes the understanding of this writer, unless the difference is connected to when the money changes hands.

No ultimatum

It should be noted here that the study did not suggest that EDLPP be offered on a "take it or leave it" basis, but as an alternative to other current arrangements, just as several manufacturers already do. Why, then, was the study met with such indifference and even hostility?

The study's authors addressed this possible reaction with the observation that a move toward EDLPP might require changes at the managerial and cultural levels of both distributors and manufacturers.

Distributors, the study said, might have to change their criteria for appraising buyers. In an EDLPP arrangement, buyers would not be rated highly for the amount of deal money they bring in, but rather for their ability to acquire merchandise at the lowest net cost, and to minimize inventory levels.

Manufacturers' sales representatives would have to develop a longer-range perspective, rather than the deal-to-deal mentality—and subsequent inventory peaks and valleys—that prevail today. This, in turn, would imply changes in the marketing and sales environment, where sales reps are concerned largely with sales of individual SKUs, while brand or product managers are evaluated on the basis of gross profit less cost of marketing.

Another possibility is that the suggestion of "everyday low purchase price" was taken to mean "dead net price." And indeed, this writer did come away with that impression from the way in which the study was presented at FMI.

But what is the present status of EDLPP retailing? Although the buying and selling functions are not the same, there is an undeniable connection. To lend perspective, SUPERMARKET BUSINESS surveyed the top 50 retail markets in the U.S., to estimate the extent of EDLP merchandising. No attempt was made to include warehouse clubs or individual warehouse stores or "box" stores. Therefore, these estimates are in no way meant to be quantitative or definitive.

The chart does serve as an indicator of the EDLP movement, and can be used as a basis for future comparison. It should also be pointed out that most so-called EDLP operators also offer weekly specials or some combination of EDLP and special offers. Some, for example, also offer double coupons and weekly specials.

The chart appears below. ■

EDLP PRESENCE IN TOP 50 MARKETS

Rank	Market	% EDLP in Market	Major EDLP Operators *
1	NY, NJ, CT	6 +	Grand Union, Edwards +
2	LA/Anaheim/Riverside, CA	37	Food 4 Less, Lucky, Albertson's, Smith's, Trader Joe
3	Chicago/Gary/Lake County, IL, IN, WI	4 +	Strack & Van Til, Welton, Cub
4	San Francisco/Oakland/San Jose, CA	33	Lucky, Albertson's, Food 4 Less, Trader Joe, Canned Foods
5	Philadelphia/Wilmington/Trenton, PA/DE/NJ	3	Giant Food Stores, Davisville Center, Grand Union
6	Detroit/Ann Arbor, MI	7	Meijer
7	Boston/Lawrence/Salem, MA/NH	16 +	Shaw's, Hannaford, First National, Edward's +
8	Washington, DC/MD/VA	11	Shoppers Food Warehouse, Food-A-Rama Basics, Food Lion
9	Dallas, Fort Worth, TX	32 +	Albertson's, Winn-Dixie, Danals, Food Lion +
10	Houston/Galveston/Brazoria, TX	14	Gerland's Food Fair, Galation, Food King, David Food City, Stanley Stores, Albertson's
11	Miami/Fort Lauderdale, FL	34	Winn-Dixie, Pueblo International, Albertson's
12	Atlanta, GA	44	Winn-Dixie, Ingles, Grand Union, Bruno's, Cub
13	Cleveland/Akron/Lorain, OH	37	First National, Fred W. Albrecht,Giant Eagle
14	Seattle/Tacoma, WA	34 +	Albertson's, Keith Uddenberg, Fred Meyer, Klauser, Thrifty
15	San Diego, CA	36	Lucky, Food 4 Less, Albertson's, Trader Joe
16	Minneapolis/St. Paul, MN/WI	36 +	Rainbow, Cub
17	St. Louis, MO/IL	0	---
18	Baltimore, MD	10	Food-A-Rama, Shoppers Food Warehouse
19	Pittsburgh/Beaver Valley, PA	33	Giant Eagle
20	Phoenix, AZ	16	Smith's Food & Drug, Albertson's, Mega Markets
21	Tampa/St. Petersburg/Clearwater, FL	29 +	Winn-Dixie, Albertson's, Food Lion
22	Denver/Boulder, CO	54	King Soopers, Albertson's, Cub
23	Cincinnati/Hamilton, OH/KY/IN	5	Remke's Markets, Meijer, Bigg's
24	Milwaukee/Racine, WI	40	Sentry, Town & Country, Roundy's (Warehouse), Cub
25	Kansas City, MO/KS	5 +	Ball's Price Chopper, Food 4 Less
26	Sacramento, CA	44	Lucky, Albertson's
27	Portland/Vancouver, OR/WA	38	Albertson's, Fred Meyer, Waremart
28	Norfolk/Virginia Beach/Newport News, VA	23	Food Lion
29	Columbus, OH	11	Meijer, Cub
30	San Antonio, TX	12 +	Albertson's, Foodarama
31	Indianapolis, IN	5	Cub
32	New Orleans, LA	61	Shwegmann Giant, Winn-Dixie, Delchamps, Albertson's
33	Buffalo/Niagara Falls, NY	0	---
34	Charlotte/Gastonia/Rock Hill, NC/SC	58	Food Lion, Winn-Dixie, Bi-Lo, Community Cash Stores, Lowe's Food Stores, Ingles
35	Providence/Pawtucket/Rock Hill, RI/MA	10	Great Scott
36	Hartford/New Britain/Middletown, CT	1 +	Grand Union, Edwards
37	Orlando, FL	52	Winn-Dixie, Albertson's, Pueblo International, Food Lion
38	Salt Lake City/Ogden, UT	64	Smith's Food & Drug, Albertson's, Winegar's
39	Rochester, NY	0	---
40	Nashville, TN	15	Food Lion, Bruno's
41	Memphis, TN/AR/MS	2	Jitney Jungle Stores of America
42	Oklahoma City, OK	0	---
43	Louisville, KY/IN	24	Winn-Dixie
44	Dayton/Springfield, OH	22	Fuhrer, Scheer's Metro Markets, Meijer, Hench Enterprises, Howard's Foods
45	Greensboro/Winston-Salem/High Point, NC	57 +	Food Lion, Winn-Dixie, Lowe's, Ingles
46	Birmingham, AL	78	Bruno's, Winn-Dixie, Cub, Delchamps
47	Jacksonville, FL	57	Winn-Dixie, Albertson's, Food Lion
48	Albany/Schenectady/Troy, NY	47 +	Grand Union, Hannaford, First National, Edwards +
49	Richmond/Petersburg, VA	17	Winn-Dixie, Food Lion
50	W. Palm Beach/Boca Raton/Delray Beach, FL	40	Winn-Dixie, Albertson's

+ Select stores in market are operating as EDLP. No market share data.

*** Lists major EDLP retailers in area. Does not necessarily include all EDLP operators.**

5TH ANNUAL PRODUCE DEPARTMENT OPERATIONS REVIEW

BY DAVID LITWAK AND NANCY MALINE

For many involved in the produce industry, the end of their world may have seemed near, as cold winds blasted through the dormant fields and groves, icing not only vines and branches, but the very life blood of California's farmers.

Scenes from the great freeze of the winter of 1990-1991 gave way to images of devastated crops, and losses for suppliers and retailers.

Luckily for those involved, images are not always reality. While many producers and customers suffered, most were able to hold their own in terms of sales last year. In fact, produce departments in the nation's grocery stores enjoyed a 7.8-percent increase in sales dollars during 1991.

Many of the seeds that the industry planted to invigorate sales last year are still reaping benefits in 1992, and should still be producing results for years to come.

Among them were the increase in alternative sources of supply, a rebuilding of consumer confidence in the safety of the products, and programs that highlighted produce's place in terms of nutrition and health in the diet.

These factors combined to help the industry counter the potentially disastrous effects of the freezes and droughts in many vital growing areas. And of course, increases in the prices of many produce items also had their impact on total sales dollars.

Total sales of produce through the nation's grocery stores reached new heights last year, stretching almost to $35 billion, averaging out to just about $21,861 per store, per week. Despite the varied availability of many items in different parts of the country due to lower supplies, the majority of retailers (56 percent) reported increases in 1991 from the previous year's total.

While it is still too early to accurately predict 1992 sales, early indications are that sales will continue to increase. One favorable factor is the sheer amount and

Weather was rough, supply was down and memories of Alar still fresh, yet consumers again drove produce volume upward. The reasons why may well assure ongoing success in this vital and perennially profitable department.

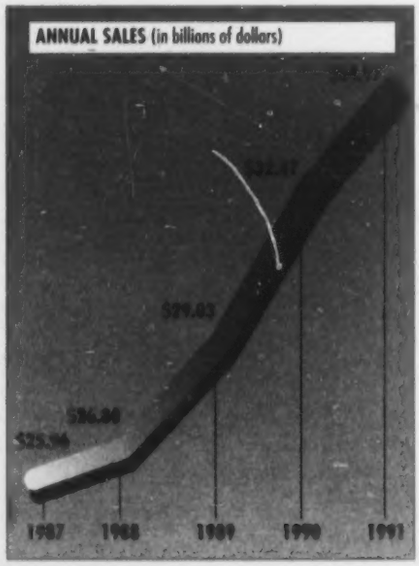
PRODUCE CENSUS SALES & MARGINS

If an apple a day truly keeps the doctor away, then imagine the impact of $35 billion worth of assorted fruits and vegetables on the medical profession. Consumers spent just about that much in this key supermarket department during 1991. The figure represents an increase of 7.7 percent or $2.5 billion over the previous year's volume.

Produce department directors reported average weekly sales to be a juicy $21,861. Over half (56 percent) reported sales increases by their departments, with those gains averaging a very healthy 8.1 percent compared to 1990. However, a third said dollar sales were somewhat lower in 1991 than they were the year before.

Where does the produce department fit into the supermarket mix? On average, more than a tenth of total store sales take place there. And with the average gross margin reported to be 38.2 percent, the section contributes 18.7 percent of the store's total gross profit.

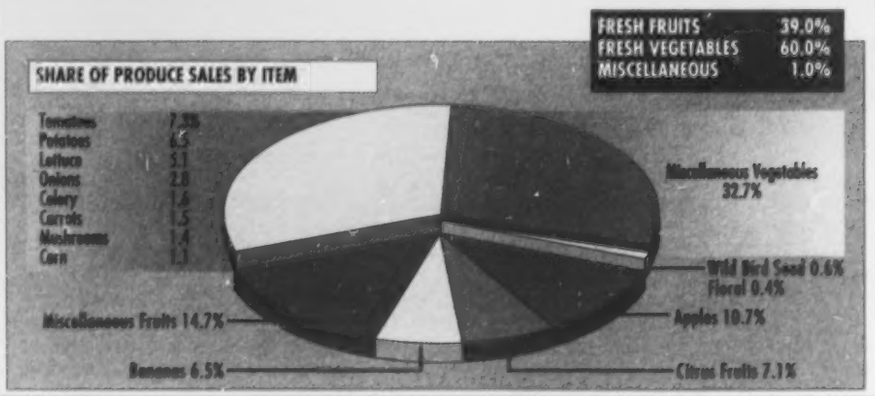
Produce Units		
Produce Departments		30,700
Percent of all Supermarkets		100%
Average Weekly Sales	Mean: 21,861	Median: 20,987
Conventional		9,117
Superstore		26,355
Change in Dollar Sales (1991 vs. 1990)		
Higher		56%
No Change		11
Lower		33
Total		100%
Average Reported Increase		8.1%
Sales, Profits & Margins		
Share of Total Store Sales	Mean: 10.9%	Median: 9.9%
Contribution to Store Profits	Mean: 18.7%	Median: 18.3%
Gross Margin	Mean: 38.2%	Median: 37.8%



PRODUCT MIX

Although vegetables outsell fruit by about 20 percentage points, the all-American apple tops the individual item hit parade, with a 10.7-percent share of the total produce sales pie. A fair share also goes to citrus fruit (7.1 percent) and bananas (6.5 percent). As for individual vegetables, tomatoes (7.3 percent) and potatoes (6.5 percent) are the biggest sellers.

Predictably, the largest segments of the produce sales pie are comprised of miscellaneous fruits and vegetables. (Yes Mr. Bush, that includes broccoli.) These involve a mixed bag of over 200 produce varieties, each with a share too small to warrant individual mention.



variety of products that are available this year.

Kathy Means, director of communications for the Produce Marketing Association, Newark, Del., says "On the retail side, there's a lot more to sell this year than last year. We've had an abundance of much of the summer produce, so there were a lot of products for the stores to put on ad. You would expect more volume to move.

"Hurricane Andrew will have some impact on the availability of supply," she pointed out, "but we won't know what that impact will be until the growers can really get out and inspect the damage. Then we'll be able to tell what's left and if we can make up the shortage with foreign sources."

Anybody who grows, distributes, processes or sells produce undoubtedly remembers the Alar scare of 1989. The fact is that most people who eat produce also remember it!

But despite this awareness, it appears that consumers have regained any confidence lost regarding the safety of the produce they eat. According to a study recently released by the Center for Produce Quality, an industry advisory group that focuses on safety and food protection issues, 86 percent of those surveyed say that they have confidence in the safety of their produce.

Not only was this a marked increase over confidence levels immediately following the Alar incident, but it is even higher than confidence levels measured before the incident. This appears to be the result of industry efforts to inform consumers by taking a more active role in pesticide-related issues, largely through public awareness campaigns.

The study showed that consumers believe farmers are moderating their pesticide use, and that industry groups are now more credible, despite the activities of farm workers protesting the use of potentially hazardous pesticides over the past year.

It also found that consumption is on the upswing, a reflection of consumer belief not only in the safety of the produce, but in the dietary benefits it offers. Forty-two percent of respondents said that their families ate more fruits and vegetables in the past year, while a year earlier, only 31 percent reported an increase in consumption.

Increased consumer desire to include more produce in their diets, accompanied

Consumption is on the upswing, a reflection of consumer belief not only in the safety of the produce, but in the dietary benefits it offers.

by this year's increased crop yields, should combine to enhance retail produce sales in 1992. So it is not hard to see why many are predicting a bumper sales year.

With 1991's average gross margins on produce reaching 38.2 percent in supermarkets, the category remains a supermarket profit star. On average, it accounts for 18.7 percent of the total profits of the store, and about 10.3 percent of sales distribution. Those are the national averages, but many stores enjoy considerably higher produce distribution rates, even to the point of making the departments their specialty.

To the end of increasing such profitable volume, the supermarket industry has embraced a massive promotional program called Five-A-Day, obviously geared to motivate consumers to see to it that family members include five fruit or vegetable items in their daily diets.

The national campaign, which incorporates the efforts of the produce industry and its trade associations as well as the retail community, has the blessing of the National Cancer Institute, to underline the credibility of the health benefit claims at the heart of the program.

To date, 225 retailers have signed on to participate in the program, along with a number of service wholesalers. According to Produce for Better Health (PBH), Newark, Del., which coordinates the Five-A-Day program, this translates to over 35,000 retail stores. In addition to supermarkets, these outlets include convenience stores, designated farm markets and the defense commissary network. PBH believes that the penetration into supermarkets stands at about 75 to 80 percent of ACV nationwide.

The rate of participation has far exceeded the initial targets, according to PBH executive director Brian Krieg. "In terms of satisfaction surveys from retailers, we are getting good feedback, especially from those retailers who have been more enthusiastic in their implementation of the program," he said. "Retailers have begun to look at the program as a customer service message, as well as a sales message. They are providing important information to their customers, while increasing sales in the long run."

As to the consumer's reaction to the program, the evidence is less abundant. Surveys done in 1989 that measured the number of servings consumers believed they needed in their daily diets found that only eight percent thought that the proper amount was five per day.

After the program was started last year, a National Cancer Institute survey found a

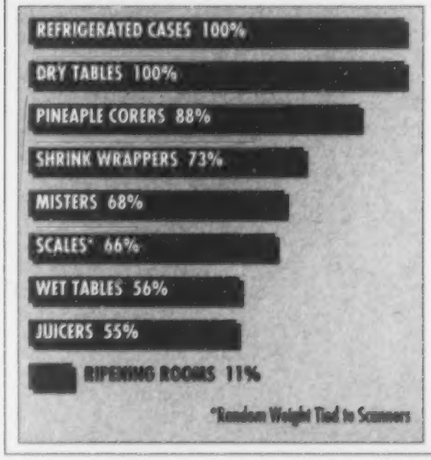
SPACE & EQUIPMENT

Despite its sales growth, the produce department only gained an additional 43 square feet of space in 1991, for an average department size of 4,910 square feet. This growth is in proportion to the supermarket's expansion as a whole. As it did in 1990, the average produce section occupied 12 percent of the store's total space.

Per square foot, the department brings in $4.45 a week, on average, which represents an improvement of 28 cents over the previous year's $4.17.

Occupying the average department's 4,910 square feet are some rather large pieces of equipment. The largest, refrigerated cases and dry tables, are produce essentials. Since consumers love pineapples, except when it comes to handling them, most stores (88 percent) have pineapple corers available to make the fruit even more appealing (and saleable) to customers. Further on the theme of convenience, three-fourths of supermarkets (73 percent) use shrink-wrappers to pre-package some items.

To alleviate cashier confusion and checkout gridlock, two-thirds of stores have scales which will issue scanner and pricing data. Very few operators (11 percent) see the need for ripening rooms at this point in time.



Size of Department	
Square Foot of Space	Mean 4,910
	Median 2,945
	Conventional 2,300
	Superstore 5,135
Share of Total Store Space	Mean 12.0%
	Median 10.8%
	Conventional 12.3%
	Superstore 11.2%
Average Weekly Sales Per Square Foot	
	Mean $4.45
	Conventional $4.02
	Superstore $5.01

SUPPLY

The average produce buyer is becoming more and more accustomed to finding exotic fruits and vegetables. And as the unusual becomes the commonplace, the number of varieties carried in the produce department continues to increase. In 1990, the average produce department sold 240 varieties. That figure swelled to 280 last year. In the peak of the summer season, there were 310 items available in the average supermarket produce department, compared to 285 in 1990.

The vast majority of supermarket produce (91 percent) still comes to retailers via large regional produce distribution centers. However, 80 percent of produce operators surveyed report that at least 10 percent of the merchandise they sell is locally grown.

Sources of Supply	
Delivered Direct to Store	9%
Through Warehouse	91
Total	100%

Number of Produce Items Stocked		
Varieties	Year-Round Average 280	Summer Months Average 310
100 or less	20%	2%
101-200	18	7
201-300	38	42
Over 300	24	51
Total	100%	100%

Use of Locally Grown Products (Percent of Items)	Mean 12.3%
Less than 5%	19%
5 - 9%	10
10 - 14%	56
15% and over	24
Total	100%

To date, 225 retailers representing 35,000 retail stores have signed up to participate in the Five-A-Day program.

surge in awareness of the five-servings-a-day standard following increased media attention. The institute plans to repeat the consumer surveys next year for a more accurate assessment.

In terms of total consumption, achievement of the program's goal of five servings a day per person by the year 2,000 would double the current intake of 2.5 servings a day. Krieg points out that increasing the national daily produce diet by a half of one serving would increase annual produce sales by a third.

Currently, the program's actual coordination budget is $600,000 a year, and he estimates that the produce industry will spend about $15 million to promote it this year. There are also plans to develop a foodservice component, and community based pilot projects.

The program is sure to increase the retailer's usage of departmental signage. In 1991, 40 percent of retailers reported using extensive signage, while the remaining 60 percent used only limited written messages. Nearly all said they used point-of-purchase advertising materials.

New nutritional labeling requirements will also have a hand in increasing customer reading matter in the produce department. New Federal guidelines are currently voluntary, but the goverment will conduct compliance surveys next year to determine if regulations should be made mandatory.

Says PMA's Means, "Stores are putting up signs for at least the top 40 items (top 20 vegetables and fruits), and some are going beyond that. Produce has such a good nutritional story to tell, that for both the consumer and the retailer, nutritional labeling is a win-win situation."

The growth of branded produce items continued in the nation's supermarkets in 1991. Exactly half the operators responding to our survey said they carried more branded produce in 1991 than ever before. The other 50 percent said that they carried about the same amount. No one reported carrying fewer branded items in 1991 than in previous years.

Many of the major growers, such as Sunkist, Turbana, Chiquita and Nunes have continued to aggressively promote not only their brands, but also the nutritional properties of their particular categories. Along with this, many of these suppliers have developed new packages and are branding new products or varieties.

One hot topic in international trade circles that is not lost on the produce industry is the Free Trade Agreement that was recently signed. While many other

LABOR & SERVICE

Like every other department in the store, produce is feeling the pinch of staff cutbacks. The average department employed somewhat less help in 1991 than in 1990 (4.2 full-time equivalents compared to 4.5).

Each full-time equivalent employee brought in $5,205 per week in sales, about 15 percent or $693 more than the year before. Unfortunately for the front office, that increase did not lower labor costs as a percentage of total sales. Despite the cutbacks, labor ended up costing more in 1991 (8.8 percent of sales vs. 8.5 percent in 1990). The skyrocketing cost of insurance and other benefits was cited as the apparent cause.

Although the convenience of pre-packaged produce goods has its appeal (29 percent of the merchandise was reported to be packaged), bulk merchandising continues to be the mainstay of the department (71 percent of total items).

Number of Employees	
Full-time	2.6
Part-time	3.2
Full-time Equivalent	4.2

Full-time Equivalent Employees*	
Fewer than 3	17%
3 - 4	35
5 - 6	22
7 - 9	26
Total	100%

*Two part-time = one full-time employee

Average Weekly Sales Per Employee*	Mean $5,205
$2,000 or less	1%
$2,001 - $3,000	18
$3,001 - $4,000	41
$4,001 and over	40
Total	100%

*Full-time equivalent employees

Labor Cost (As a Percent of Produce Sales)	Mean 8.8%	Median 8.3%
8% or less		27%
8%		22
9%		23
10%		28
Total		100%

Items Sold Packaged or Bulk (Percent of Products)	Mean	Median
Packaged	29%	25%
Bulk	71%	75%

CUSTOMER SPENDING

Six out of every ten shoppers (61%) in the supermarket visit the produce department. Their average transaction there adds up to $2.92, an increase of $.21 per purchase over 1990.

Percent Who Shop the Produce Department	Mean 61%	Median 57%
How Much They Spend	Mean $2.92	
$1.00 or less		11%
$1.01-$2.00		16
$2.01-$3.00		35
$3.01 or more		38
Total		100%

Many of the major growers have continued to aggressively promote not only their brands, but also the nutritional properties of their particular categories.

industries are wary of its effects on them, the U.S. produce industry is generally anticipating many more benefits than it is hardships.

The agreement calls for tariffs on agricultural products to be lifted. All products will be classified into five groups, and the tariffs will be phased out over a 10-year period, depending on the group the product is in.

According to the United Fresh Fruit and Vegetable Association, Alexandria, Va., this will allow for greater access to markets in the U.S., Mexico and Canada for producers and suppliers of all three countries. One important factor of the agreement is that it allows each of the three nations to impose its own pesticide and other product safety regulations on the foreign produce being imported.

Foreign produce suppliers have continued to grow in significance in the American market. Currently, Mexico ships about four billion pounds of produce into the U.S. each year, a figure that may well increase further as a result of this agreement. However, this also gives U.S. growers more opportunity to reach into those markets as well.

Foreign shipments were instrumental in supplying produce items to U.S. supermarkets whose domestic supply was crippled by the freezes and droughts of 1990 and 1991. This helped hold down prices and contributed to the overall increase in sales. They may well have to play a similar role to an extent this year, once the damage done to Florida's growing areas by Hurricane Andrew has been accurately assessed.

As for what's "hot" among produce items, it appears that when it comes to the produce section, modern consumers behave no differently than they do in any other perishables department.

The watchword remains convenience. Retailers report that the items that they added to their departments most often last year were convenience items. Prepared salads, pre-cut vegetables and melons and upscale dressings topped the list of the most commonly introduced or expanded produce programs in 1991. ■

SPECIAL SECTIONS

There are items sold in the supermarket that are related to produce, but that do not necessarily come under the department's responsibility. The salad bar is a prime example. Salad bars are operated by two-thirds of the companies we surveyed. Yet, while their items obviously "originate" in produce, only half of the sections in the respondents' stores are maintained by produce personnel.

Almost all of the companies offer floral items (93 percent), but little more than half (56%) were sold by the produce department.

When asked what's hot in the produce aisle this year, staffers will tell you they've been extra busy cutting up fruits and vegetables and preparing ready-made salads for purchase. Another new wave is the growth of more upscale salad dressings now sold in the produce section.

According to respondents to our survey, the demand for bulk foods and dried fruits is decreasing.

ITEMS MOST OFTEN INCREASED/DECREASED

INCREASED	DECREASED
Prepared Salads	Bulk Foods
Pre-cut Items	Dried Fruits
Upscale Salad Dressings	

PERCENT OF COMPANIES THAT HAVE SECTIONS	PERCENT OF SECTIONS RUN BY PRODUCE DEPT.
FLORAL	
93%	56%
FRESH SQUEEZED JUICE	
78%	88%
SALAD BARS	
67%	50%
BULK FOODS	
47%	50%

Zero Percent

MERCHANDISING

Every company surveyed uses at least some signage to identify and promote their produce. More branded items are being sold, according to half the respondents, with literally none reporting a decrease in branded produce volume.

Consumer issues that remain high on the "concerns" lists of produce department operators include pesticides and produce safety, new labeling requirements, and the hiring and training of competent personnel.

Use of Signage (to explain varieties)

	% of Companies
Use signage	40%
Limited use of signage	60
No signage	0
Total	100%

Change in Amount of Branded Produce Items Carried (1991 vs. 1990)

Increased	50%
Decreased	0
No Change	50%
Total	100%

Biggest Challenges Facing Produce Department

Pesticides/Produce Safety — Increasing Sales per Transaction

Training — Labeling

ADVERTISING & PROMOTION

Virtually all supermarkets continue to advertise produce specials in newspapers, and point of purchase promotions and instore sampling are also applied almost universally. Radio and television spots are used by 78 percent and 55 percent of respondents, respectively.

Produce operators feel that the advertising support the department receives is at least proportionate to department sales. Eighty-seven percent feel that their share of promo space is fair relative to the volumes their sections produce.

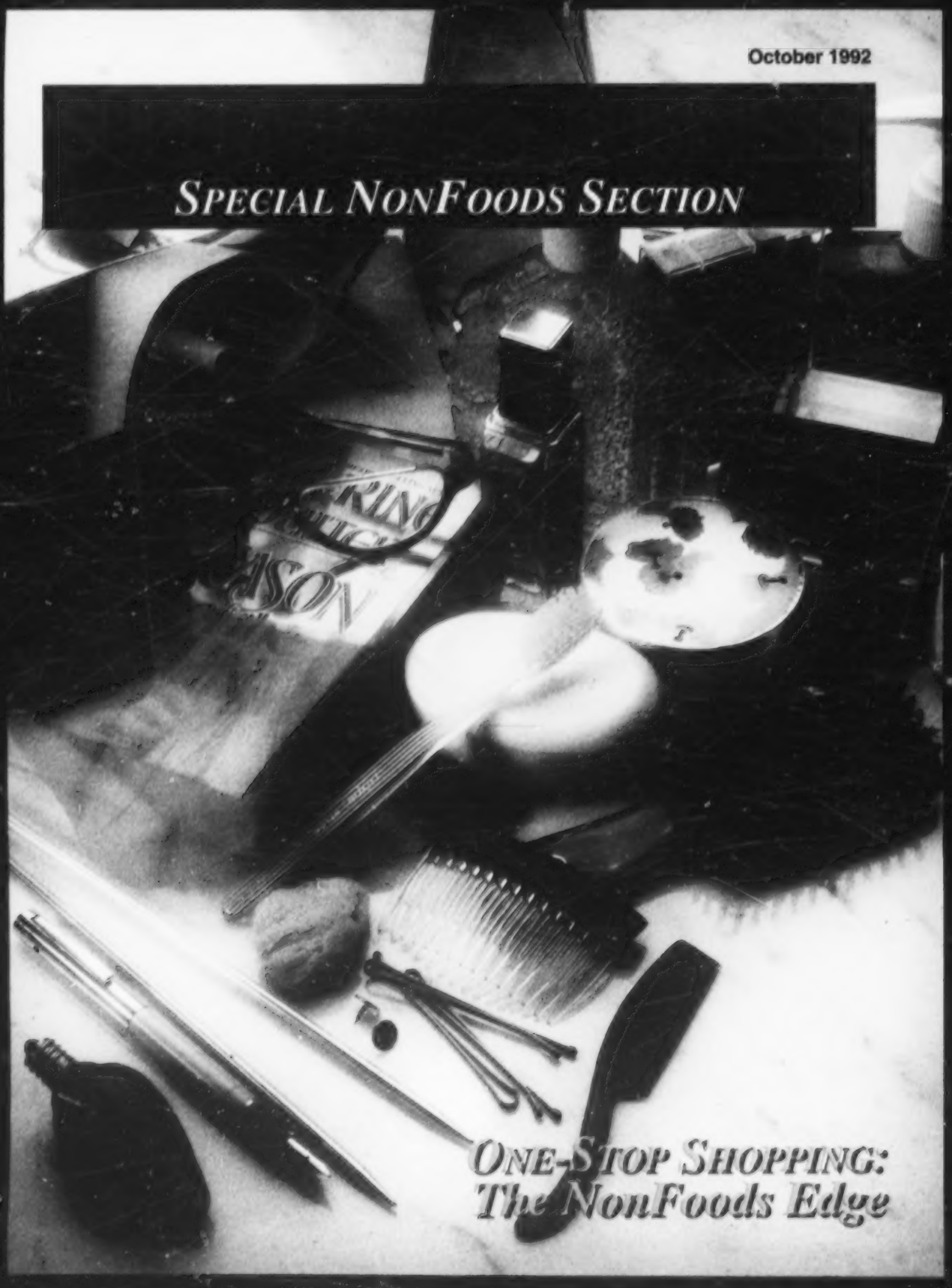
Promoting Produce	% Use
Newspapers	100%
Sampling	90
Point of Purchase	95
Circulars	83
Radio	78
Television	55

Produce's Share of Ad Space Compared to Share of Sales

Greater	25%
Less	13
Equal	62
Total	100%

October 1992

SPECIAL NONFOODS SECTION



ONE-STOP SHOPPING: The NonFoods Edge

GM/HBC TRENDS

Consumer Demand Ignites NonFoods Sales in Supermarkets

Think the robust growth rate of nonfoods is slowing in supermarkets? If you do, you should consider these facts:

- Nonfoods products copped the top five positions as far as largest percentage increases in dollar sales, according to Supermarket Business' Annual Consumer Expenditures Study;
- Two nonfoods products ranked in the top 15 product classifications as far as dollar volume increases, according to the CES;
- Both health & beauty aids and general merchandise registered solid sales gains from 1990 to 1991, outpacing such grocery store staples as soft drinks, candy and pasta.
- Nonfood items (including prescriptions) produce almost 10 percent of total store sales.

Indeed the outlook for nonfoods appears to be as fit as ever.

Prescription for Health

One reason is the emphasis on health-related merchandise that ties into the increasing number of pharmacies in food stores today. According to the CES, prescription drugs produced a 16 percent dollar increase from 1990 to 1991. Prescriptions now account for 1 percent of total store volume. Retailers such as Kroger and Safeway have vowed to open pharmacies in all new stores. The nation's supermarkets added 229 instore pharmacies this year, with the total growing to 5,113 from 4,884 in 1990. Pharmacies now operate in 16.5 percent of all supermarkets in the country.

The halo effect Rx departments have on other health & beauty aids contributed to strong sales spikes in categories such as cough medications, incontinence products, fever thermometers and diarrhea remedies. For example, cough medication dollar sales rocketed almost 39 percent from 1990 to 1991.

Other categories benefitting from the health orientation of food stores include home pregnancy test kits (12.6 percent gain), burn remedies (8.3 percent) and antacids (7.8 percent). Sales of over-the-counter medications were also bolstered by items which are now available without a prescription such as yeast infection remedies. Although some operators shied away from yeast infection products because of high price points and pilferage, those who did stock them reported a sales bonanza.

Supermarkets worked hard to protect their turf in health & beauty aids. After building up enviable 35 percent to 50 percent market shares in health and beauty aids, supermarkets found themselves under attack from a revived drugstore market as well as an emerging wholesale club business. Intrepid food stores held onto the

continued on page 6

1991'S TOP $ GAINERS IN SUPERMARKETS

Category	1991 Grocery Store Sales (000)	Percent Increase	% of Store Volume
Video Cassette Sales	190,788	57.4	0.06
Cough Medications	377,692	38.7	0.11
Toothbrushes	203,560	27.3	0.06
Incontinence Products	115,614	25.9	0.03
Diarrhea Remedies	166,628	24.6	0.05
Toaster Pastries	233,409	23.7	0.07
Packaged Cold Cuts	4,706,782	22.2	1.36
Plastic Cutlery	66,582	20.9	0.02
Cereal Bars	406,128	19.0	0.12
Onions	977,452	18.8	0.28
Routine Infant Formulas	1,501,747	18.4	0.43
Croutons	40,105	17.0	0.01
Tomatoes	2,543,001	16.6	0.73
Antifreeze	206,803	16.2	0.06
Freezer Paper	24,026	16.1	0.01
Video Cassette Rentals	845,000	16.0	0.24
Fever Thermometers	18,113	16.0	0.01
Prescriptions	3,480,916	16.0	1.00
Frozen Yogurt	302,260	15.7	0.09
Apricots	24,711	15.2	0.01

With nonfoods products winning nine out of the top 20 dollar gainer slots, overall nonfoods growth is stronger than all other major departments except bakery & deli.

continued from page 3

market and HBC sales hit a new high of $11.6 billion last year, up 5.3 percent over 1990's $11 billion.Average weekly sales of supermarket HBC sections maintained a steady rate of increase last year, rising to $7,250 from $6,879 in 1990, a gain of $371 a week.

Average gross margins in the department rose to 29.9 percent, up from 27.3 percent the year before. The higher margins can be attributed to the sale of higher margin products such as OTC medications.

OTC drugs, however did lose a full percentage point of their previous share, but they still account for almost a quarter of the HBC section's sales. The next largest is hair care.

On average, labor costs consumed 4 percent of HBC sales, up from 3.8 percent. Some of this increase is because of a reduced use of service merchandisers in HBC as well as the costs of staffing pharmacies and cosmetics departments.

Department sizes have a mean average of 228 gondola feet with a median of 241 gondola feet. Naturally, super warehouse stores sport the largest at 308 feet; conventional units average 173 feet.

The One-Stop Shopping Edge

One-stop shopping is also playing a factor in nonfoods growth, especially in general merchandise. Video cassette sales posted a 57.4 percent dollar increase from 1990 to 1991 as shoppers took advantage of expanded video offerings in food stores. Video cassette rental also produced a 16 percent jump in dollar volume.

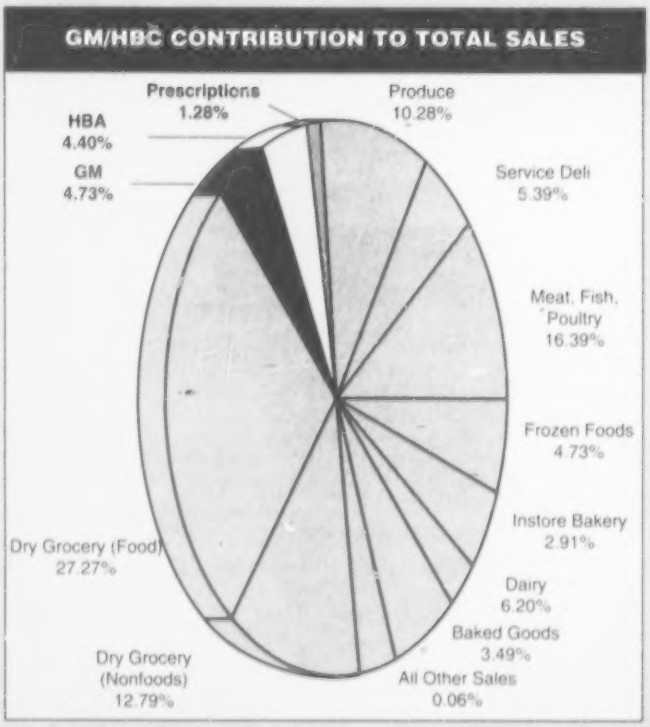
Other categories exhibiting impressive sales increases include greeting cards (5.9 percent), pet accessories (7.5 percent) and writing implements (8 percent). Surprisingly, categories some supermarket operators have decided to eliminate such as auto supplies, exhibited increased sales last year. Auto supplies sales jumped 7.1 percent from 1990 to 1991.

General merchandise sales are rising at a somewhat lesser rate with supermarkets reporting overall gain of 5 percent to hit the $11.9 billion mark. Typical general merchandise weekly averages range vastly from $5,309 per week to $13,215 —depending on the store size and type.

The two largest segments of general merchandise are housewares and periodicals and books. Photo supplies is the third largest.

In terms of gondola feet, general merchandise departments range from 425 feet to 1,085. Because products are merchandised throughout the store, labor costs are distributed among many departments. On average labor represented 6.1 percent of sales, up from 5.1 percent last year.

Although general merchandise sales are growing slower than HBC, customers have come to expect to find a healthy assortment of items such as rubber serving products, utensils, gadgets, film, pet supplies and greeting cards. A well-stocked general merchandise selection can be the ultimate one-stop shopping competitive tool. ■



Health & Beauty Care, General Merchandise and Prescriptions together account for a total of 9.13% of supermarket sales, an increase of 1.15 points (14.4%) over five years ago.

WHO'S WHO IN INSTORE ADVERTISING

Some of the leading companies in the instore business

ActMedia, Norwalk
Services offered: Cart Advertising, Aisle Vision/Aisle Action, POP Radio, Shelf Talk, Shelf Take, Impact, Select, Freezer Vision, Act Now Retailer's Choice
Network: Over 20,000 food stores, 10,000 drug stores and 2,000 mass merchandisers, toy stores and home centers
Clients (partial list): Procter & Gamble, Unilever, Pepsi, Borden, Nabisco, Dial, Quaker Oats
Approximate 1991 revenues: $200 million

Catalina Marketing, Anaheim
Services offered: Checkout Coupon, QuickCash frequent shopper program
Network: 4,500 supermarkets nationwide
Clients (partial list): Coca-Cola, Pepsi, Nabisco, RJR Tobacco, Quaker Oats, Campbell's, Kraft General Foods, ConAgra, Warner-Lambert
Approximate 1991 revenues: $48 million

In-Store Advertising, New York
Services offered: Network of electronic two-sided billboards at key locations in-store. Ads are transmitted via satellite from the company to each store.
Network: 5,400 stores nationwide
Clients (partial list): Kraft General Foods, Nabisco, Nestle, Procter & Gamble
Approximate 1991 revenues: $20 million

MediaOne, New York
Services offered: Network of two-sided backlit advertisng signs at checkout lanes New products: Cart Clip Program (ads featured on clips on cart handles)
Network: 5,600 stores nationwide
Approximate 1991 revenues: Sources put revenues at around $8 million

Turner Broadcasting System, Atlanta
Services offered: Checkout Channel Network: 150 stores in 11 market areas nationwide. Recently inked an agreement with A&P to roll out Checkout Channel into 300 A&P stores in the northeast.

Site-Based Media, New York
Services offered: Shopper's Video, a network of TV monitors which deliver animated videos at key locations throughout the store
Network: Roughly 50 stores. Recently inked a joint venture agreement with NBC and Fleming Companies to expand the new NBC On-Site to roughly 1,000 stores.

VideoCart, Inc., Chicago
Services offered: electronic coupons/specials with screen mounted on shopping cart
Network: 180 stores nationwide
Approximate 1991 revenues: $3.8 million (32 stores)

SOURCES: ADWEEK; BOZELL STUDY

GOING THE NEXT STEP

Instore advertising may not have the cachet of a 30-second TV spot, but more and more clients are pressuring agencies to take a hard look at the new medium.

By Michael McCarthy

Although it has generally been treated as the ignored stepchild of the advertising world, the strong growth of instore advertising is leading many agencies to change their attitudes toward this new medium.

Now, following a decade in which the use of instore media and promotion has roughly doubled, the growth of instore advertising is outstripping more traditional vehicles such as television and print. The industry, valued at about $350 million in revenues this year, is expected to grow to more than $1 billion in the next five years. These optimistic projections have industry experts believing that ad agencies might start using the medium as a front-line weapon rather than an afterthought to existing media plans. If agencies do so, they might be able to tap into a new source of revenue for the recession-plagued advertising industry.

"In these times, the agency business could certainly use another billion dollars per year passing through the system," says Charles Peebler, chief executive officer of Bozell, which recently published a landmark study on the industry. "Instore advertising definitely qualifies as another advertising medium, and agencies

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Going the Next Step

Continued from page 61

should view this as something within their province."

But while the times may be right, the majority of agencies have not embraced instore advertising as a wholly legitimate vehicle for their clients. Most claim they need to see more research before committing dollars and schedules. Many don't regard instore to be as glamorous as TV or print; some don't consider instore to be advertising at all.

But instore marketers say agencies are mired in outdated thinking and won't accept the future. "We're dealing with people who are resistant to change. I know that's hard to believe of ad agencies," says Wayne LoCurto, president and chief executive officer of ActMedia in Norwalk, Conn., the largest instore advertising operation. Adds Michael Wolf, a partner in the management consulting firm of Booz Allen & Hamilton, New York. "Agencies need to see their role as moving away from simply providing creative services to becoming marketing problem solvers...Agencies are very wedded to traditional mass media, especially TV. Couponing often doesn't fit in with what they've created for a client's TV campaign."

But a vice chairman of a large New York shop sums up the agency side succinctly: "We're not believers yet. This thing is still in its infancy, and we want to be sure that it's viable for our clients before we commit to it." This executive, however, did not want to be named for fear of angering clients who like the concept of in-store marketing. His concern points up the potential schism evolving between agencies and clients.

Some 60 to 70 percent of time sold by instore marketer MediaOne, New York, for example, is placed directly through the client, according to president Jefferson Myers. Adds LoCurto, "The agencies have a chance to access [client] promotion budgets they've never touched before. But we get no help from a lot of agencies. They look down their noses at us because we're not network television."

More than 50 companies are active in the instore advertising business, but only a handful, including ActMedia, Catalina Marketing in Anaheim, Calif., In-Store Advertising (ISA), New York and MediaOne are truly national players. The big players in the market offer a host of services to their clients, ranging from low-tech billboards to high-tech coupon machines. Regardless of size, all these companies rely on the same factors for growth: the fragmentation of existing media; the fact that shoppers make nearly 70 percent of their purchasing decisions at the point of-sale; and the drive by clients to find new ways to influence consumer shopping habits at the store level.

For agencies, the medium provides some obvious benefits. Most major programs offer commissions to shops that buy time for their clients on instore networks. ActMedia ad products, for instance, are 15 percent commissionable. Instore advertising allows agencies to tap into clients' promotion budgets—an opportunity for beleaguered

shops to recoup marketing dollars that clients are increasingly putting into promotional budgets. Promotion expenditures now outstrip ad dollars by a 75-25 margin, according to Stamford, Conn.-based Donnelley Marketing. The medium also functions as a powerful complement to traditional advertising. "We provide the link between a national advertising program and getting the consumer to reach for the product instore," says Wally Meyer, president and chief operating officer of Catalina Marketing. "A lot of our clients are using our network more for advertising than they are for couponing."

Instore advertising's biggest benefit to agencies may be that it allows shops to strengthen relationships with clients. Says Marc Kalan, vice president, marketing for ISA: "The bottom line is that this is an opportunity for agencies to build on the portfolio of services they provide to clients. The agencies that don't realize this will be the losers since they are allowing a third party to become one of the primary communication vehicles for their clients."

As the industry has grown, it has given birth to state-of-the-art promotional vehicles. According to Bozell's study, retailers today have the ability to evaluate shelf space, return per square foot, direct product profit and return on invested inventory. With Catalina's Checkout Coupon, consumers can receive instant coupons on certain products. Many instore advertising programs are still in the testing phase, such as Shoppers Video over-the-shelf TV monitors; Turner Broadcasting Systems' and ActMedia's joint venture, Checkout Channel, which provides TV monitors at supermarket checkout lanes; and VideOcart, which mounts monitors on shopping carts.

Though the business of instore marketing is clearly on the upswing, there remain obstacles to reaching the billion-dollar mark by the end of the decade. To attract new advertisers, instore marketers have to streamline the industry's image. To many propective clients it remains a bizarre mix of advertising, couponing and promotion. The image compounds an already tough sell to prospective clients who hold the medium to standards more akin to promotion than advertising. Advertisers look for direct sales increases in promotional campaigns, while image advertising strives for reach and frequency.

Like other new industries that have grown in a burst of potential, there is a glut of instore services. Insiders predict a shakeout over the next five years that will leave a handful of powerful players that may redefine the business.

According to Michael Wolf, the whole area of electronic marketing is part of the war for control between retailers and manufacturers. With these two groups battling, small third-party companies that offer instore advertising services could end up squeezed by both sides.

"Some retailers and manufacturers are already asking, 'Why do we have to have a third party do this? Why can't we do it ourselves?'" says an industry veteran. "We're caught in the middle, and right now that's not a very comfortable place to be." ■

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